

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES

Meeting Minutes from Thursday, September 28, 2006

Members Present: Brian Bjorndahl, Chairman
John Moore, City Manager's Appointee
Cindy Bezaury, Human Resources Director
Scott Douthitt, Finance Director
Marie Nemerguth, Employee Representative
John O'Hare, Employee Representative
Paul Miner, Retiree Representative

Staff Present: Frank Kern, Board Counsel
Joe Ladenburg, Deputy Finance Director
Robert Leko, Finance Administrator
Joel Peterson, Risk Manager
Allan Bentkowski, Investment Manager
Michael Hermanson, Retirement Manager
Claire Beaubien, Administrative Assistant

Guests Present: Jean Wilkins, CTRA Representative
Enid Moore-Crenshaw, Fund Accountant

A. Call to order

Chairman Brian Bjorndahl called the meeting to order at 8:30 a.m.

B. Consent Agenda

1. Approval of August 24th, 2006 Board Meeting Minutes
2. Approval of September 6, 2006 Board (Special Meeting) Minutes
3. Service & disability retirement facts and figures report for September, 2006

Marie Nemerguth **motioned, seconded** by Scott Douthitt, to approved the consent agenda as presented. **Motion passed 7-0.**

C. Investment Activity / Status Report - Portfolio composition, transactions and individual investments

Allan Bentkowski reported that the total fund had a market value of \$624 million on 9/27/06, and \$621 million on 8/31/06. These balances are net of the \$10.5 million moved to cash for the anticipated amount necessary to fully fund the group of 133 library transfers to Arizona State Retirement System. All allocations are close to policy targets. To date, LaSalle has not given us a capital call but it is expected at any time. Bonds continue to perform well for the fixed income portion of the portfolio. TCW Core and Fidelity have performed poorly against their benchmarks for the first few months of this fiscal year. Comparing the two, TCW Core had returns of -4.57% vs. the Russell 1000 of +1.16%. Fidelity Small Cap Core had a return of -3.26% vs. the Russell 2000 of -0.39%. Markets are shaping up nicely of late. For the fiscal year thru 9/28, the Dow has risen by 2.54%, the S&P up 2.37% and the NASDAQ has risen by 3.09%. On a positive note, worldwide geo-political tension has stabilized somewhat, gas prices have fallen slightly and the Fed's policy toward raising interest rates has neutralized with less interest toward future rate increases (for now).

D. Adoption of rules for the End of Service Incentive

Mike Hermanson overviewed of the End of Service Incentive Program. Since the incentive is available to everyone already electing to be in the End of Service Program, advisory letters have

been mailed to approximately 50 people that already signed up. Jean Wilkins remarked that she thought there might be some confusion by this announcement because the limited time duration was not emphasized in the offer description. She also noted that she had received several phone calls from retirees inquiring whether the monies to support this incentive program were coming from the general fund or the retirement fund. Some of these callers were upset because they had not received a pension raise in the last two years, and felt that it wasn't fair to take monies from the retirement fund to support the incentive program. Scott Douthitt responded that any additional required pension contributions have always and will continue in the future to come from the general fund anyway. John O'Hare remarked that perhaps a process should be put in place to review the impact to the fund over time. He believed that an annual review was in order. Frank Kern remarked that the Board would know what the impact was to the fund after 5/31/07. Chairman Bjorndahl suggested that this would be a good topic to discuss at the Annual Retreat to be held in October. After the discussion, Scott Douthitt **motioned** to adopt the announcement as the governing rules for the incentive program. Cindy Bezaury provided a **second** to the motion. **Motion passed 7-0.**

E. 401(a) plan – adoption of rules for the 401(a) Supplemental Retirement Plan

Frank Kern gave an overview of the foundation for the 401(a) plans adopted by the Mayor & Council on September 26, 2006. This plan is based on the plan set up by the City of Phoenix and is now currently actively operated. Frank asked that the Board approve, in substance, the announcement staff has prepared as the operating rules. He also asked that the Board direct staff to parallel our plan to the City of Phoenix's Plan. Frank told the Board that it was planned to use the same three forms that the City of Phoenix is currently using for their 401(a) plan. Those forms include a sign up form to defer bi-weekly amounts into a 401(a) plan, another form to roll sick leave/vacation leave payouts, and a third form that is a release of liability form. Marie Nemerguth asked if the forms to be used would have a strategically placed warning to let the prospective participant know that participation is irrevocable. Mike replied that the form would have a warning. He also said that there will be significant counseling for anyone considering participation in this program. There will be no enrolling online or via email or U.S. mail. The prospective participant will have to come to the Retirement office to enroll after receiving appropriate counseling. Cindy Bezaury asked Mike if there was a provision for Police/Fire personnel to defer their sick leave buy-back. Mike replied that staff would need to research that issue and several others where it is not clear that particular item qualifies as severance or termination pay. Frank advised the Board that the IRS had two issues with the City of Phoenix plan: the plan could not be used as a sick leave/vacation leave "dump grounds" and there had to be consistent deferral patterns of saving. Frank reminded the Board that the plan would not be up and running until 11/1/06. This will give staff time to have a dialogue with Phoenix in order to parallel their plan and provide staff with time to organize administration/payroll issues.

John O'Hare **motioned** to approve the operating rules written and further directed staff to generally parallel our plan to the City of Phoenix's plan. John Moore **seconded** the motion. **Motion passed 7-0.**

F. Report on service credit transfers to ASRS for Library Employees

Mike Hermanson gave a report regarding the service credit transfers to Arizona State Retirement System for the Library employees who transferred to Pima County. There were 133 people who transferred their time/monies to Arizona State Retirement System. However, to date, no transfers have been made until staff has sufficiently understood the means of calculation used by ASRS and Mike wanted to verify that the calculations are consistent and correctly before releasing any funding to Arizona State Retirement System.

G. Future Agenda Items

1. Board retreat next month – Friday, October 27th

2. Educational topics for Board retreat

1. Mike reminded the Board that the Annual Retreat will be held on October 27th, 2006 beginning at 7:30 a.m. for breakfast with the meeting beginning at 8:00. The meeting will be held at the Arizona Inn. PIMCO will give their annual reports on both accounts. J JP Morgan will give their annual report and a presentation on an topic that will be approved by staff. Marie requested that an update on the progress of the new pension software be given at the Retreat.
2. Items for educational topics will include JP Morgan's discussion and Hewitt's presentation on Hedge funds. Chairman Bjorndahl voiced concern that there would be a conflict of interest when invited to dinner by Hewitt. However, Scott Douthitt pointed out that there is no conflict of interest because Hewitt is not competing for a contract. Frank reminded the Board that a "chuckwagon" announcement needs to be made prior to the dinner so that the public is aware that the dinner will happen and that no business will be conducted, although general market conditions and investments subjects are frequently discussed.

H. Call to Audience

None heard.

I. Adjournment

John O'Hare **motioned, seconded** by Paul Miner, to adjourn the meeting. **Motion passed 7-0.**
Meeting adjourned 9:29 a.m.

Approved:

Brian Bjorndahl, Chairman Date

Michael A. Hermanson, Retirement Mgr. Date